

Message Text

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PAGE 01 TAIPEI 07304 061017Z

12

ACTION EA-14

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FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 383

INFO SECDEF WASHDC

CINCPAC HONOLULU

C O N F I D E N T I A L TAIPEI 7304

E.O. 11652: GDS

TAGS: MASS, TW

SUBJECT: UH-1H CO-PRODUCTION AND RELATED PROGRAMS

REF: STATE 231476

1. COUNTRY TEAM RECOGNIZES STRINGENCIES THAT HAVE LED DEPARTMENT TO WORLD-WIDE POLICY OF TURNING DOWN FMS FUNDING OF NEW MULTI-YEAR PROJECTS DURING FY 74 AND PROBABILITY THAT SIMILAR OR WORSE SITUATION WILL PREVAIL IN FY 75 WHEN ROC'S UH-1H PROGRAM COMES UP FOR FURTHER US ASSISTANCE. GIVEN THIS CLIMATE AND TAIWAN'S STRONG ECONOMIC PERFORMANCE, WE UNDERSTAND WHY ROC IS A FAVORITE CANDIDATE FOR FURTHER PROGRAM CUT-BACKS. WE BELIEVE, HOWEVER, IT IS NOT IN US INTEREST TO PRESS TOO HARD AS ROC PROCEEDS FROM CONCESSIONAL TO ALMOST ENTIRELY CASH/COMMERCIAL CREDIT PROGRAM.

2. ROC HAS MADE TRANSITION FROM GRANT PROGRAM WITH EXTRAORDINARY RAPIDITY AND MINIMAL DISRUPTION. ADJUSTMENT PROCESS SHOULD CONTINUE BUT THERE IS A LIMIT TO GOVERNMENT'S FLEXIBILITY AND ABILITY ABRUPTLY TO ASSUME FULL FINANCIAL BURDEN OF ITS WIDE-RANGING DEFENSE MODERNIZATION PROGRAMS. REFLECTING OUR PAST INSISTENCE, ROC HAS WELL-DEFINED POLICY, IN FURTHERANCE OF ORDERLY
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PAGE 02 TAIPEI 07304 061017Z

BUDGET PROCESS, OF AVOIDING SUPPLEMENTAL APPROPRIATIONS.

IT NEEDS ROUGHLY SAME LEAD TIME AS US TO FACTOR NEW EXPENDITURES INTO BUDGET CYCLE. PROGRAMS WITHDRAWN FROM FMS SUPPORT NOW, NORMALLY, WOULD BE FUNDED 18 MONTHS HENCE. SO FAR, ROC HAS COPEDED SUCCESSFULLY WITH CURTAILMENT AND APPROACHING TERMINATION OF GRANT ASSISTANCE AND WITH RECEIPT OF FMS CREDIT BELOW PLANNED CEILINGS. NONETHELESS, CASH FLOW PROBLEM IS BEGINNING TO PLACE SEVERE CONSTRAINTS ON OVERALL MODERNIZATION PROGRAMS.

3. RATHER THAN TURN ROC DOWN FLATLY ON HELICOPTERS AS REQUESTED REFTTEL, COUNTRY TEAM RECOMMENDS FOLLOWING AS WAY WE COULD EASE PSYCHOLOGICAL, IF NOT PHYSICAL, IMPACT OF POKNTIAL REDUCTION IN FMS FUNDING:

A. WE TELL ROC NOW OF SEVERE PINCH ON FUTURE FMS CREDIT AVAILABILITY AND ADVISE IT NOT TO COUNT ON FMS CREDIT FUNDING FOR NEW MULTI-YEAR COMMITMENTS;

B. WHILE EMPHASIZING TO ROC THAT PROSPECTS GRIM, WE AVOID POINT-BLANK ANNOUNCEMENT OF CUT-OFF FMS FUNDING FOR UH-1H AND T-53 PROGRAMS; CAUTIOUSLY HOLD DOOR OPEN FOR SOME FY 75 FMS CREDIT FUNDING -- BEYOND THAT COMMITTED TO F5E PROGRAM -- WHICH MIGHT BECOME AVAILABLE FOR JOINTLY AGREED HIGH-PRIORITY PROJECTS;

C. DEFENSE AND STATE CONSIDER FINAL ONE-YEAR WRAP UP FY1975 FMS ALLOCATION FOR HELICOPTER AND ENGINE PROGRAMS TO FACILITATE TRANSITION TO CASH/COMMERCIAL CREDIT BASIS.

4. WOULD APPRECIATE WASHINGTON REACTION.
MCCONAUGHY

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